

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through April 15, 2011**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period
April 16, 2010 Through April 15, 2011

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the Rockcastle County Sheriff for the period April 16, 2010 through April 15, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,935,178 for the districts for 2010 taxes, retaining commissions of \$120,741 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,802,806 to the districts for 2010 taxes. Taxes of \$8,270 are due to the districts from the Sheriff and a refund of \$309 is due to the Sheriff from a taxing district.

Report Comments:

- 2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- 2010-02 The Sheriff Should Deposit Revenues Intact Daily
- 2010-03 The Sheriff Should Pay Investment Earnings To The Board Of Education On A Monthly Basis In Accordance With KRS 134.140
- 2010-04 The Sheriff Should Distribute Tax Collections In Accordance With KRS 134.191

Deposits:

The Sheriff's deposits as of November 5, 2010 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$1,531,348

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Michael E. Peters, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the Rockcastle County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011. This tax settlement is the responsibility of the Rockcastle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Rockcastle County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through April 15, 2011, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 16, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- 2010-02 The Sheriff Should Deposit Revenues Intact Daily
- 2010-03 The Sheriff Should Pay Investment Earnings To The Board Of Education On A Monthly Basis In Accordance With KRS 134.140
- 2010-04 The Sheriff Should Distribute Tax Collections In Accordance With KRS 134.191

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 16, 2011

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period April 16, 2010 Through April 15, 2011

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 281,711	\$ 451,460	\$ 1,437,448	\$ 440,625
Tangible Personal Property	17,315	36,868	90,374	76,670
Fire Protection	1,610			
Franchise Taxes	28,321	58,681	147,494	
Additional Billings	464	847	2,391	985
Limestone, Sand and Mineral Reserves	127	203	647	198
Penalties	3,247	5,340	16,557	5,638
Adjusted to Sheriff's Receipt	(5)	(12)	(5)	5
Gross Chargeable to Sheriff	<u>332,790</u>	<u>553,387</u>	<u>1,694,906</u>	<u>524,121</u>
<u>Credits</u>				
Exonerations	2,525	4,047	12,885	3,950
Discounts	3,923	6,410	19,945	6,580
Delinquents:				
Real Estate	11,230	17,928	57,083	17,498
Tangible Personal Property	298	633	1,553	1,564
Franchise Taxes	236	504	1,234	
Total Credits	<u>18,212</u>	<u>29,522</u>	<u>92,700</u>	<u>29,592</u>
Taxes Collected	314,578	523,865	1,602,206	494,529
Less: Commissions *	<u>13,370</u>	<u>22,265</u>	<u>64,088</u>	<u>21,018</u>
Taxes Due	301,208	501,600	1,538,118	473,511
Taxes Paid	299,876	500,294	1,531,313	471,323
Refunds (Current and Prior Year)	<u>402</u>	<u>624</u>	<u>2,036</u>	<u>608</u>
Due Districts		**		
as of Completion of Audit	<u>\$ 930</u>	<u>\$ 682</u>	<u>\$ 4,769</u>	<u>\$ 1,580</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
SHERIFF'S SETTLEMENT - 2011 TAXES
For The Period April 16, 2010 Through April 15, 2011
(Continued)

* Commissions:

4.25% on	\$	1,332,972
4% on	\$	1,602,206

** Special Taxing Districts:

Library District	\$	478
Health District		(309)
Extension District		394
Watershed District		<u>119</u>

Due Districts	\$	<u><u>682</u></u>
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ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Rockcastle County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2011
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 5, 2010, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$1,531,348

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2011. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 21, 2010 through April 15, 2011.

Note 4. Interest Income

The Rockcastle County Sheriff earned \$1,664 as interest income on 2010 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of August 16, 2011, the Sheriff owed \$872 in interest to the school district and \$792 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Rockcastle County Sheriff collected \$25,851 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of August 16, 2011, the Sheriff has overpaid the fee account \$1,598 in 10% add-on fees and owes \$1,598 to his tax account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Rockcastle County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, and have issued our report thereon dated August 16, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rockcastle County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2010-01 and 2010-02 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2010-03 and 2010-04.

The Rockcastle County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Rockcastle County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

August 16, 2011

COMMENTS AND RECOMMENDATIONS

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2010 Through April 15, 2011

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

The Sheriff's office lacks an adequate segregation of duties over receipts and disbursements. During our review of internal controls, we noted the Sheriff employs two bookkeepers. One bookkeeper is responsible for opening mail, writing checks and has signature authority. The second bookkeeper is part time and is responsible for posting transactions to the receipts and disbursements ledgers as well as preparing bank reconciliations. Both bookkeepers collect funds, prepare bank deposits, prepare the daily tax report and can initiate voided transactions in the computerized tax system. One cash register was available and utilized by all employees that collect cash receipts. The Sheriff requires dual signatures on all checks, however, the bank allowed a number of checks to be paid with only one signature. The bank also allowed checks to be processed for the transfer of money in and out of the sheriff's tax and fee accounts without appropriate signature authority.

Because a lack of adequate segregation of duties existed or controls were weak, the following occurred:

- The Sheriff paid a portion (\$15,054) of the 10% penalties over to the school district. These should have been paid to the fee account. The school district has since reimbursed the Sheriff these funds.
- KRS 134.191 requires the sheriff to provide monthly reports and pay taxes collected by the tenth day of each month following collections to the districts. For the school district this also includes the Sheriff's commission which is to be returned to the Sheriff. The commissions collected in April were not paid to the school in the amount of \$1,329. In addition, an open deposit in the computerized tax system for November 30 was not included in the monthly report for November or December and therefore commission collected on this day were not disbursed to the fee account in the amount of \$939.
- A deposit was opened in the computerized tax system on November 30 and not closed until after the monthly reports were generated for November. As a result, the open deposit was not included in the November or December monthly reports. Taxes collected for this day totaled \$22,870 with \$21,930 being due to the districts. No taxes were paid to the districts for taxes collected on November 30th.
- Funds were distributed to the districts for an NSF check in the amount of \$17,580. The sheriff voided the transaction in the computerized tax system and it is reflected as a delinquent tax bill on the tax settlement, however the districts did not refund the Sheriff resulting in an over payment to the districts in the amount of \$17,580.
- An additional 17 bills found in the Sheriff's office marked paid in the tax book were not listed paid in the computerized tax system, in the amount of \$3,147.
- Proper adjustments were not made for voided transactions by the sheriff's department. The computerized tax system cannot handle voids that do not occur in the same month as the receipt, a manual adjustment is required on the monthly tax report. No such adjustments were noted on the monthly tax reports.
- Interest was not paid over on a monthly basis as required by KRS 134.140.
- Franchises were not distributed as required by KRS 134.191.

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2010 Through April 15, 2011
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements (Continued)

When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. The implementation of compensating controls is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties of opening mail, collecting funds, preparing bank deposits, and preparing tax reports. If due to a limited number of staff this is not feasible, the Sheriff should implement the following compensating controls in order to offset this deficiency:

- The Sheriff or a designated employee should recount cash and agree to the deposit ticket. The Sheriff or the designated employee should document this by initialing the deposit ticket.
- The Sheriff should perform surprise cash counts.
- The Sheriff should compare monthly reports to the receipts and disbursements ledgers as well as the bank reconciliation. The Sheriff should document this by initialing the receipts and disbursements ledgers, the monthly reports and the bank reconciliation.
- The Sheriff should purchase checks with two signature lines and establish an agreement with the bank to require that all checks have two signatures before being processed, with one signature being the official.
- The Sheriff's office should enter tax bills upon receipt in the computerized tax system.
- The Sheriff's office should have a cash register for each employee collecting funds. This could be documented by an individual daily check out sheet for each register. The drawer should be balanced by the employee and verified at the end of each day by a second employee. This could be documented by each employee signing the daily check out sheet. All daily check out sheets should then be reconciled to the daily tax reports.
- The daily tax report should be reconciled to the daily deposit by the Sheriff or by an employee who does not collect taxes or prepare the deposit. This could be documented by initialing the tax report as well as the deposit slip.
- The Sheriff's office should print complete daily tax reports and reconcile these to the monthly tax report, receipt ledger and bank statement. Each step should be documented by initialing the documents.
- If a void is required the reason for the void should be included on the tax bill in the computerized tax system. In addition, all voids should be maintained with supporting documentation for the void and this documentation should be approved by the Sheriff as well as compared to a monthly voided report generated by the computerized tax system.
- The Sheriff should examine checks prepared by the bookkeeper and compare to the monthly tax reports. This could be documented by initialing the monthly reports.

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2010 Through April 15, 2011
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements (Continued)

- The Sheriff should receive the bank statements unopened, and review the statements for any unusual items prior to giving them to the person responsible for reconciliations.
- The Sheriff should receive a signed receipt from each taxing district documenting delivery of the tax payment.

Sheriff's Response: "Have reviewed recommendations and are planning to implement some changes to conform with these recommendations."

2010-02 The Sheriff Should Deposit Revenues Intact Daily

Prior to the audit the Sheriff contacted the Auditor of Public Accounts about a problem with receipts. Sheriff's employees located several green tax receipts that had not been processed in the computerized tax system. The bookkeepers discovered 17 tax receipts, totaling \$3,147 and marked paid in the tax book, were not processed in the computerized tax system. Of the 17 tax bills, 15 were marked as paid with cash during the period October 7, 2010 to December 8, 2010. The Sheriff had the bookkeeper process the tax bills and the Sheriff paid the 2010 tax account \$3,147 from his personal account. If the 17 tax bills were collected on the dates noted on the tax bills the daily deposit could not have been made intact. We also noted the sheriff's office has only one cash drawer for tax collections and that tax bills are not being entered into the computerized tax system upon receipt but as time allows during the day. Additionally, tax bills were keyed into the computerized tax system by one of the bookkeepers and not necessarily the person who collected the bill. The auditor was also informed that refunds for checks written over the amount of the tax bill could have been made in cash.

KRS 68.210 requires the Department for Local Government to prescribe a uniform system of accounts. As part of the uniform system of accounts local officials are required to make daily deposits intact into a federally insured banking institution.

We recommend the Sheriff take steps necessary to comply with the requirements of KRS 68.210. Please refer to recommendations provided in comment 2010-01 for steps to ensure compliance. We will refer this finding to the Kentucky State Police.

Sheriff's Response: "With recommended changes this should not reoccur."

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2010 Through April 15, 2011
(Continued)

STATE LAWS AND REGULATIONS:

2010-03 The Sheriff Should Pay Investment Earnings To The Board Of Education On A Monthly Basis In Accordance With KRS 134.140

During our review of investment earnings, we noted interest had not been paid over to the Board of Education or to the Fee Account. KRS 134.140 requires the Sheriff to pay the Board of Education's share of investment earnings on a monthly basis, at the time of monthly tax distribution and use the remainder to pay lawful expenses of his office. We recommend the Sheriff comply with KRS 134.140 by paying to the Board of Education their portion of investment earnings on a monthly basis and transferring the remainder to the appropriate fee account to be used for lawful expenses of his office.

Sheriff's Response: No response.

2010-04 The Sheriff Should Distribute Tax Collections In Accordance With KRS 134.191

During our review of tax payments, we noted franchise taxes collected from July 2010 through October 2010 were not disbursed until November 17, 2010, and franchise taxes collected November 2010 through January 2011 were not disbursed until February 11, 2011. KRS 134.191 requires the Sheriff to provide monthly tax reports by the tenth day of each month to the county, the department and any other district for which the sheriff collects taxes and payments are due at the time of the report. KRS 134.191 also imposes a penalty of one percent (1%) for each thirty (30) day period or fraction thereof when payment is not made. We recommend the Sheriff pay all taxes due at the time reports are made in accordance with KRS 134.191.

Sheriff's Response: No response.

